

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Schoolcraft	County Kalamazoo
Fiscal Year End February 28, 2006	Opinion Date June 20, 2006	Date Audit Report Submitted to State JULY 10, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES                                     | NO                       | Check each applicable box below. (See instructions for further detail.)   |
|---|--------------------------|---|
| 1. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.   |
| 2. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.   |
| 3. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.  |
| 4. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has adopted a budget for all required funds.   |
| 5. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute.   |
| 6. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.   |
| 7. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.  |
| 8. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements.   |
| 9. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).  |
| 10. <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years.  |
| 12. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED.   |
| 13. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| 14. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute.  |
| 15. <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.	Telephone Number 269-329-7007		
Street Address 710 E. Milham	City Kalamazoo	State MI	Zip 49002
Authorizing CPA Signature Carol A. Light, CPA	Printed Name Carol A. Light, CPA	License Number 1101020083	

**Village of Schoolcraft**

**Schoolcraft, Michigan**

**Annual Financial Statements  
and  
Auditors' Report**

**February 28, 2006**

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**Village of Schoolcraft**  
**List of Elected and Appointed Officials**  
**February 28, 2006**

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Village Council

Loren Warfield – President

Faith Akert – Treasurer & Clerk

Russel Barnes – Trustee

Scot Dailey – Trustee

Keith Gunnett – Trustee

Walter Mullin – Trustee

Carl Tackett – Trustee

James VanDyken – Trustee

Other Officers and Officials

Cheri Lutz – Village Manager

## Independent Auditors' Report

Members of the Village Council  
Village of Schoolcraft  
Schoolcraft, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Schoolcraft as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Schoolcraft as of February 28, 2006 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The managements' discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Schoolcraft's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

June 20, 2006  
Kalamazoo, Michigan

**Village of Schoolcraft  
Management's Discussion and Analysis  
February 28, 2006**

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The management of the Village of Schoolcraft, Michigan ("the Village") provides this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2006 for the benefit of the readers of these financial statements. This management's discussion and analysis ("MD&A") is intended to assist the reader in focusing on significant financial issues and provide an overview of the Village's financial activity. The Village encourages the readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

**HIGHLIGHTS**

**Government-wide:**

The assets of the Village exceeded its liabilities at the close of the fiscal year by \$3.3 million (reported as net assets), an increase of approximately \$200,000 from the previous year.

**Fund Level:**

As of the close of the fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,313,845. Of this, \$1,313,618 is reported as unreserved fund balance, with \$3,579 designated for drug enforcement. The remaining fund balance is reserved for summer reading. At the end of the fiscal year, unreserved fund balance for the General Fund was \$464,575, including \$3,579 designated for drug enforcement, which is a decrease of \$21,238. The proprietary funds reported an increase in net assets of \$12,636 during the year.

**Long Term Debt:**

The Village's total long-term debt was \$503,667 at February 28, 2006. More detailed information regarding these activities and funds begins on page 4-19.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is an introduction to the Village's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.



**Village of Schoolcraft  
Management's Discussion and Analysis  
February 28, 2006**

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The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

The Village's combined net assets increased \$199,658 over the course of this fiscal year's operations to a total of \$3,263,041. The net assets of the governmental activities increased \$187,022 and business-type activities increased \$12,636.

**Net Assets as of February 28, 2006 and 2005**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>						
Current and other non-current assets	\$ 1,407,394	\$ 1,377,714	\$ 83,090	\$ 49,862	\$ 1,490,484	\$ 1,427,576
Capital assets	<u>585,747</u>	<u>391,860</u>	<u>1,743,619</u>	<u>1,294,810</u>	<u>2,329,366</u>	<u>1,686,670</u>
Total Assets	1,993,141	1,769,574	1,826,709	1,344,672	3,819,850	3,114,246
<b>Liabilities</b>						
Long-term liabilities	44,561	18,669	480,323	--	524,884	18,669
Other liabilities	<u>27,644</u>	<u>16,991</u>	<u>4,281</u>	<u>15,203</u>	<u>31,925</u>	<u>32,194</u>
Total Liabilities	72,205	35,660	484,604	15,203	556,809	50,863
<b>Net Assets</b>						
Invested in capital assets, net of related debt	558,867	391,860	1,266,832	1,294,810	1,825,699	1,686,670
Restricted	227	--	--	--	227	--
Unrestricted	<u>1,361,842</u>	<u>1,342,054</u>	<u>75,273</u>	<u>34,659</u>	<u>1,437,115</u>	<u>1,376,713</u>
Total Net Assets	\$ <u>1,920,936</u>	\$ <u>1,733,914</u>	\$ <u>1,342,105</u>	\$ <u>1,329,469</u>	\$ <u>3,263,041</u>	\$ <u>3,063,383</u>

The largest component of the Village's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Unrestricted net assets are the next largest component. These represent resources that may be used at the Village's discretion, but often have limitations based upon policy action. The remaining portion, restricted net assets, is subject to external restrictions such as bond covenants, Village Charter, State legislation or Constitutional provision.

**Village of Schoolcraft**  
**Management's Discussion and Analysis**  
**February 28, 2006**

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The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's net assets changed during the fiscal year.

**Change in Net Assets For the Fiscal Year Ended February 28, 2006**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 49,826	\$ 59,218	\$ 131,035	\$ 139,914	\$ 180,861	\$ 199,132
Operating Grants	12,416	12,200	3,409	8,435	15,825	20,635
General Revenues						
Taxes	681,705	630,645	--	291	681,705	630,936
State shared revenue	283,495	290,163	--	--	283,495	290,163
Unrestricted investment earnings	22,101	5,262	678	216	22,779	5,478
Gain on sale of capital assets	--	1,250	--	--	--	1,250
Miscellaneous	<u>17,159</u>	<u>22,509</u>	<u>10,944</u>	<u>9,457</u>	<u>28,103</u>	<u>31,966</u>
Total Revenues	1,066,702	1,021,247	146,066	158,313	1,212,768	1,179,560
<b>Expenses</b>						
General government	250,187	291,786	--	--	250,187	291,786
Public safety	334,815	268,899	--	--	334,815	268,899
Public works	151,603	215,164	--	--	151,603	215,164
Community and economic development	108,385	100,592	--	--	108,385	100,592
Recreation and culture	34,690	35,648	--	--	34,690	35,648
Water	<u>--</u>	<u>--</u>	<u>149,888</u>	<u>179,743</u>	<u>149,888</u>	<u>179,743</u>
Total Expenses	879,680	912,089	149,888	179,743	1,029,568	1,091,832
Increase (decrease) in net assets	187,022	109,158	(3,822)	(21,430)	183,200	87,728
Prior period adjustment	--	--	16,458	--	16,458	--
Beginning net assets	<u>1,733,914</u>	<u>1,624,756</u>	<u>1,329,469</u>	<u>1,350,899</u>	<u>3,063,383</u>	<u>2,975,655</u>
Ending net assets	<u>\$ 1,920,936</u>	<u>\$ 1,733,914</u>	<u>\$ 1,342,105</u>	<u>\$ 1,329,469</u>	<u>\$ 3,263,041</u>	<u>\$ 3,063,383</u>

**Village of Schoolcraft**  
**Management's Discussion and Analysis**  
**February 28, 2006**

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Property taxes comprise 63.9% of Governmental Activities revenue. The Village's operating mileage during the fiscal year was 14.9574 mills. In accordance with Charter and State Constitutional provisions, the Village may levy up to 17 mills for operation in fiscal year 2005-2006.

The Village has no income tax.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. Fiscal year 2005-2006 receipts from the State of Michigan trended downward, attributed to discretionary reductions in revenue sharing payments by the State of Michigan.

**Business type Activities**

Net assets of the business-type activities, which includes the water fund, increased by \$12,636 during the fiscal year. The change in net assets was actually a decrease of \$3,822. However, there was a prior period adjustment which increased net assets by \$16,458.

**FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS**

As the Village completed the fiscal year, its governmental funds reported fund balances of \$1,313,845. Of this total amount, \$1,313,618 constitutes unreserved fund balance, with \$3,579 designated for drug enforcement, which is available for appropriation for the general purposes of the funds. The remainder of fund balance is reserved and is not available for new spending because it has been reserved for the summer reading program at the Library.

**General Fund**

The General Fund is the chief operating fund of the Village. At the end of fiscal year 2005-2006, the General Fund fund balance was \$464,575, all unreserved with \$3,579 designated for drug enforcement, available for appropriation for general purposes. The fund balance decreased by \$21,238 from the previous fiscal year.

**General Fund Budgetary Highlights**

Administrative actions were taken to keep operating costs within budget. Unbudgeted expenses included professional, labor and legal fees related to the reorganization of the Police Department, also capital outlay, professional and construction expenses related to relocation of the water utility.

Property tax revenue (including penalties and interest) increased \$31,718 or 6.2% in fiscal year 2005-2006. This is attributed to usual increases in property values. The State reduced revenue sharing payments by \$1,597 in fiscal year 2005-2006. This resulted from State actions in response to the statewide economic slowdown.

**Village of Schoolcraft  
Management's Discussion and Analysis  
February 28, 2006**

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During the fiscal year, the Village amended the budget to transfer funds among activities in the General Fund. Overall, expenditures for Village departments were \$21,336 over budget. The budget overrun was due to realizing the cost for the Police Radios (an expense approved by the Village Council in a prior year, billed by Kalamazoo County this year), and the unexpected compensation for unemployment, as the Village is a reimbursing employer, paying when unemployment occurs.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets: At the end of the fiscal year 2005-2006, the Village had invested \$2,329,366, net of accumulated depreciation, in a broad range of capital assets (see the table below). Total depreciation charges for this fiscal year were \$106,627.

**Capital Assets as of February 28, 2006 and 2005  
(net of depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Infrastructure	\$ 135,869	\$ --	\$ --	\$ --	\$ 135,869	\$ --
Buildings, additions and improvements	230,205	224,407	811,856	834,629	1,042,061	1,059,036
Machinery and equipment	111,828	87,076	2,918	1,277	114,746	88,353
Vehicles	107,845	80,377	--	--	107,845	80,377
Water system	--	--	<u>928,845</u>	<u>458,904</u>	<u>928,845</u>	<u>458,904</u>
Total	\$ <u>585,747</u>	\$ <u>391,860</u>	\$ <u>1,743,619</u>	\$ <u>1,294,810</u>	\$ <u>2,329,366</u>	\$ <u>1,686,670</u>

This year's major additions included:

Grand Street Water Main – Water Fund	\$ 482,956
Grand Street Water Main - Sidewalks	33,251
Grand Street Water Main – Major Street	17,469
Grand Street Water Main – Local Street	17,468
Storm/Street Improvements	70,349
Police Radios	30,721
2005 Crown Victoria	29,469
Well #3 Pump	15,455
Fire Station Roof	13,565
John Deere Tractor	12,500

**Village of Schoolcraft**  
**Management's Discussion and Analysis**  
**February 28, 2006**

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**ECONOMIC CONDITION AND OUTLOOK**

State multi-year tax reduction legislation curtailed the State of Michigan's revenue collections. In May 2001 it became apparent that State revenues were declining and State Revenue Sharing payments to local government were cut to meet reduced revenue projections. Such reductions, and reductions in interest earnings on surplus funds, due to declines in interest rates, negatively impacted recent fiscal years, necessitating managerial constraints on operating expenditures.

Continuing expected reductions in State Revenue Sharing and the low interest rate environment, yet continuing inflationary pressure of municipal materials, supplies and equipment, dictated prudent expenditures for fiscal year 2005-2006 , and a continuance of administrative cost containment measures.

**CONTACTING THE VILLAGE'S FINANCIAL ADMINISTRATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Village Treasurer at (269) 679-4304.

**Village of Schoolcraft**  
**Statement of Net Assets**  
**February 28, 2006**

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		
<b>Assets</b>				
Cash and cash equivalents	\$ 1,109,232	\$ 199,525	\$ 1,308,757	\$ 79,542
Receivables				
Taxes	87,359	-	87,359	5,954
Customers	2,344	27,927	30,271	-
Due from other units of government	45,022	-	45,022	-
Internal balances	144,362	(144,362)	-	-
Due from component unit	19,075	-	19,075	-
Capital assets, net	585,747	1,743,619	2,329,366	1,759
	<u>1,993,141</u>	<u>1,826,709</u>	<u>3,819,850</u>	<u>87,255</u>
<b>Liabilities</b>				
Accounts payable	14,090	4,281	18,371	-
Accrued and other liabilities	13,554	-	13,554	-
Due to component unit	-	-	-	19,075
Deferred revenue	-	-	-	35,000
Noncurrent liabilities				
Due within one year	3,840	42,807	46,647	-
Due in more than one year	40,721	437,516	478,237	-
	<u>72,205</u>	<u>484,604</u>	<u>556,809</u>	<u>54,075</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	558,867	1,266,832	1,825,699	1,759
Restricted for:				
Summer reading	227	-	227	-
Unrestricted	1,361,842	75,273	1,437,115	31,421
	<u>1,920,936</u>	<u>1,342,105</u>	<u>3,263,041</u>	<u>33,180</u>
<b>Total net assets</b>	<u>\$ 1,920,936</u>	<u>\$ 1,342,105</u>	<u>\$ 3,263,041</u>	<u>\$ 33,180</u>

See Accompanying Notes to Financial Statements

**Village of Schoolcraft  
Statement of Activities  
For the Year Ended February 28, 2006**

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Primary Government		Total	
	Expenses			Governmental Activities	Business-type Activities		
<b>Functions/Programs</b>							
<b>Primary government</b>							
Governmental activities							
General government	\$ 250,187	\$ 6,164	\$ 899	\$ (243,124)	\$ -	\$ (243,124)	\$ -
Public safety	334,815	16,938	5,600	(312,277)	-	(312,277)	-
Public works	151,603	-	-	(151,603)	-	(151,603)	-
Community and economic development	108,385	4,986	5,917	(97,482)	-	(97,482)	-
Recreation and culture	34,690	21,738	-	(12,952)	-	(12,952)	-
Total governmental activities	879,680	49,826	12,416	(817,438)	-	(817,438)	-
Business-type activities							
Water	149,888	131,035	3,409	-	(15,444)	(15,444)	-
Total primary government	\$ 1,029,568	\$ 180,861	\$ 15,825	(817,438)	(15,444)	(832,882)	-
<b>Component unit</b>							
Downtown Development Authority	\$ 16,876	\$ -	\$ 39,136				22,260
General revenues							
Property taxes				681,705	-	681,705	10,609
State shared revenue				283,495	-	283,495	-
Unrestricted investment earnings				22,101	678	22,779	169
Miscellaneous				17,159	10,944	28,103	142
Total general revenues and transfers				1,004,460	11,622	1,016,082	10,920
Change in net assets				187,022	(3,822)	183,200	33,180
Net assets - beginning of year				1,733,914	1,329,469	3,063,383	-
Prior period adjustment				-	16,458	16,458	-
Net assets - beginning of year (restated)				1,733,914	1,345,927	3,079,841	-
Net assets - end of year				\$ 1,920,936	\$ 1,342,105	\$ 3,263,041	\$ 33,180

See Accompanying Notes to Financial Statements

**Village of Schoolcraft  
Governmental Funds  
Balance Sheet  
February 28, 2006**

		Special Revenue Funds			Total Governmental Funds
	General	Major Street	Local Street	Library	
<b>Assets</b>					
Cash and cash equivalents	\$ 260,931	\$ 475,360	\$ 135,058	\$ 237,883	\$ 1,109,232
Receivables					
Taxes	60,886	-	-	26,473	87,359
Customers	2,344	-	-	-	2,344
Due from other units of government	21,886	17,597	5,539	-	45,022
Due from other funds	253,583	27,120	-	2,168	282,871
Due from component unit	19,075	-	-	-	19,075
	<u>618,705</u>	<u>520,077</u>	<u>140,597</u>	<u>266,524</u>	<u>1,545,903</u>
Total assets	\$	\$	\$	\$	\$
<b>Liabilities</b>					
Accounts payable	11,324	247	183	2,336	\$ 14,090
Accrued and other liabilities	10,762	-	-	2,792	13,554
Due to other funds	66,139	17,469	46,233	8,668	138,509
Deferred revenue	65,905	-	-	-	65,905
Total liabilities	<u>154,130</u>	<u>17,716</u>	<u>46,416</u>	<u>13,796</u>	<u>232,058</u>
<b>Fund Balances</b>					
Reserved for:					
Summer reading	-	-	-	227	227
Unreserved					
Designated for drug enforcement	3,579	-	-	-	3,579
Unreserved, reported in:					
General fund	460,996	-	-	-	460,996
Special revenue funds	-	502,361	94,181	252,501	849,043
Total fund balances	<u>464,575</u>	<u>502,361</u>	<u>94,181</u>	<u>252,728</u>	<u>1,313,845</u>
	<u>618,705</u>	<u>520,077</u>	<u>140,597</u>	<u>266,524</u>	<u>1,545,903</u>
Total liabilities and fund balances	\$	\$	\$	\$	\$

See Accompanying Notes to Financial Statements



**Village of Schoolcraft  
Governmental Funds  
Reconciliation of Fund Balances of Governmental Funds  
to Net Assets of Governmental Activities  
February 28, 2006**

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<b>Total fund balances for governmental funds</b>	\$ 1,313,845
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	585,747
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	65,905
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(17,681)
Long-term debt	<u>(26,880)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 1,920,936</u></u>

**Village of Schoolcraft**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended February 28, 2006**

		Special Revenue Funds			Total Governmental Funds
	General	Major Street	Local Street	Library	
<b>Revenues</b>					
Taxes	\$ 543,646	\$ -	\$ -	\$ 127,984	\$ 671,630
Licenses and permits	5,499	-	-	-	5,499
State revenue sharing	154,986	96,332	30,687	-	282,005
Other state grants	6,499	-	-	2,920	9,419
Charges for services	36,793	-	-	892	37,685
Fines and forfeitures	-	-	-	14,961	14,961
Interest income	3,100	12,547	1,573	4,881	22,101
Rental income	6,500	-	-	-	6,500
Other revenue	1,558	5	5	3,768	5,336
Total revenues	<u>758,581</u>	<u>108,884</u>	<u>32,265</u>	<u>155,406</u>	<u>1,055,136</u>
<b>Expenditures</b>					
Current					
General government	231,559	-	-	-	231,559
Public safety	311,328	-	-	-	311,328
Public works	83,962	32,709	22,970	-	139,641
Community and economic development	-	-	-	108,385	108,385
Recreation and culture	34,690	-	-	-	34,690
Capital outlay	142,528	52,644	52,642	1,138	248,952
Debt service		-	-		
Principal retirement	3,840	-	-	-	3,840
Total expenditures	<u>807,907</u>	<u>85,353</u>	<u>75,612</u>	<u>109,523</u>	<u>1,078,395</u>
Excess (deficiency) of revenues over expenditures	<u>(49,326)</u>	<u>23,531</u>	<u>(43,347)</u>	<u>45,883</u>	<u>(23,259)</u>

See Accompanying Notes to Financial Statements

**Village of Schoolcraft**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended February 28, 2006**

	Special Revenue Funds				Total Governmental Funds
	General	Major Street	Local Street	Library	
<b>Other financing sources (uses)</b>					
Transfers in	\$ -	\$ -	\$ 24,633	\$ -	\$ 24,633
Transfers out	(2,633)	(22,000)	-	-	(24,633)
Issuance of debt	30,721	-	-	-	30,721
Total other financing sources and uses	28,088	(22,000)	24,633	-	30,721
Net change in fund balance	(21,238)	1,531	(18,714)	45,883	7,462
Fund balance - beginning of year	485,813	500,830	112,895	206,845	1,306,383
Fund balance - end of year	<u>\$ 464,575</u>	<u>\$ 502,361</u>	<u>\$ 94,181</u>	<u>\$ 252,728</u>	<u>\$ 1,313,845</u>

**Village of Schoolcraft  
Governmental Funds  
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
of Governmental Funds to the Statement of Activities  
For the Year Ended February 28, 2006**

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<b>Net change in fund balances - Total governmental funds</b>	<b>\$ 7,462</b>
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(55,065)
Capital outlay	248,952

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

State shared revenue	1,490
Property taxes	10,075

Expenses are recorded when incurred in the statement of activities

Compensated absences	988
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Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Debt issued	(30,720)
Repayments of long-term debt	<u>3,840</u>

<b>Change in net assets of governmental activities</b>	<b><u>\$ 187,022</u></b>
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**Village of Schoolcraft**  
**Proprietary Funds**  
**Statement of Net Assets**  
**February 28, 2006**

	<u>Enterprise Funds</u>
	<u>Water</u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 199,525
Receivables	
Customers	27,927
Due from other funds	68,188
Total current assets	<u>295,640</u>
Noncurrent assets	
Capital assets, net	<u>1,743,619</u>
Total assets	<u>2,039,259</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	4,281
Due to other funds	212,550
Current portion of noncurrent liabilities	42,807
Total current liabilities	<u>259,638</u>
Noncurrent liabilities	
Compensated absences	3,536
Long-term debt net of current portion	433,980
Total noncurrent liabilities	<u>437,516</u>
Total liabilities	<u>697,154</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	1,266,832
Unrestricted	<u>75,273</u>
Total net assets	<u>\$ 1,342,105</u>

See Accompanying Notes to Financial Statements

**Village of Schoolcraft**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended February 28, 2006**

	<u>Enterprise Funds</u>
	<u>Water</u>
<b>Operating revenue</b>	
Customer fees	\$ 133,857
Connection fees	1,592
Other revenue	6,530
Total operating revenue	<u>141,979</u>
<b>Operating expenses</b>	
Personnel services	46,899
Supplies	8,653
Contractual services	12,911
Utilities	6,557
Repairs and maintenance	5,298
Other expenses	1,890
Depreciation	51,562
Total operating expenses	<u>133,770</u>
Operating income (loss)	<u>8,209</u>
<b>Nonoperating revenue (expenses)</b>	
State grant	3,409
Interest income	678
Interest expense	(16,118)
Total nonoperating revenues (expenses)	<u>(12,031)</u>
Change in net assets	<u>(3,822)</u>
Net assets - beginning of year	1,329,469
Prior period adjustment	<u>16,458</u>
Net assets - beginning of year restated	<u>1,345,927</u>
Net assets - end of year	<u>\$ 1,342,105</u>

See Accompanying Notes to Financial Statements

**Village of Schoolcraft**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended February 28, 2006**

	<u>Enterprise Funds</u>
	<u>Water</u>
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 143,698
Receipts from other funds	(68,188)
Payments to other funds	171,672
Payments to suppliers	(42,695)
Payments to employees	<u>(46,899)</u>
Net cash provided (used) by operating activities	<u>157,588</u>
<b>Cash flows from noncapital financing activities</b>	
State grant	<u>3,409</u>
<b>Cash flows from capital and related financing activities</b>	
Proceeds from capital debt	507,694
Purchases/construction of capital assets	(483,913)
Principal and interest paid on long-term debt	<u>(47,025)</u>
Net cash provided (used) by capital and related financing activities	<u>(23,244)</u>
<b>Cash flows from investing activities</b>	
Interest received	<u>678</u>
Net increase in cash and cash equivalents	138,431
Cash and cash equivalents - beginning of year	<u>61,094</u>
Cash and cash equivalents - end of year	<u><u>\$ 199,525</u></u>

See Accompanying Notes to Financial Statements

**Village of Schoolcraft  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended February 28, 2006**

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	<u>Enterprise Funds</u>
	<u>Water</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ 8,209
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization expense	51,562
Changes in assets and liabilities	
Receivables (net)	1,719
Due from other funds	(68,188)
Accounts payable	(7,519)
Accrued and other liabilities	133
Due to other funds	<u>171,672</u>
Net cash provided (used) by operating activities	<u>\$ 157,588</u>



**Village of Schoolcraft**  
**Notes to Financial Statements**  
**February 28, 2006**

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**Note 1 - Summary of Significant Accounting Policies**

**Reporting entity**

Village of Schoolcraft is governed by an elected seven-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the Village's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the Village. The members of the Governing Board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the Village of Schoolcraft annual financial statements.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary*

*government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Village of Schoolcraft**  
**Notes to Financial Statements**  
**February 28, 2006**

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Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Street Funds account for the maintenance and improvement activities for streets designated as "major" and "local" within the Village. Funding is primarily through state shared gas and weight taxes.

The Library Fund accounts for the costs of maintaining a library.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**Village of Schoolcraft**  
**Notes to Financial Statements**  
**February 28, 2006**

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Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Assets, liabilities, and net assets or equity**

*Deposits and investments* – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

*Receivables and payables* – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the government totaled \$36,641,523, on which ad valorem taxes consisted of 14.9574 mills for operating purposes. This resulted in \$548,062 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

*Capital assets* – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

**Village of Schoolcraft**  
**Notes to Financial Statements**  
**February 28, 2006**

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Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	25 to 50 years
Vehicles	3 to 10 years
Office equipment computer equipment	5 to 7 years
Computer equipment	3 to 7 years

*Compensated absences* – It is the Village's policy to permit employees to accumulate earned but unused vacation and personal benefits. All vacation pay and personal time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

*Long-term obligations* – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*Fund equity* – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for

a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Comparative data**

Comparative data is not included in the government's financial statements.

### **Note 2 - Stewardship, Compliance, and Accountability**

#### **Budgetary information**

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to year-end, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

**Village of Schoolcraft**  
**Notes to Financial Statements**  
**February 28, 2006**

**Note 3 - Deposits and Investments**

At yearend the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents
Governmental activities	\$ 1,109,232
Business-type activities	<u>199,525</u>
Total primary government	1,308,757
Component unit	<u>79,542</u>
Total	<u>\$ 1,388,299</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,308,486	\$ 79,542
Petty cash and cash on hand	<u>271</u>	<u>-</u>
	<u>\$ 1,308,757</u>	<u>\$ 79,542</u>

*Interest rate risk* – In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 60 months.

*Credit risk* – State statutes authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the government authorizes investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

*Concentration of credit risk* – The government has no policy that would limit the amount that may be issued in any one issuer.

*Custodial credit risk - deposits* – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 1,017,104 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Village of Schoolcraft**  
**Notes to Financial Statements**  
**February 28, 2006**

**Note 4 - Receivables and Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
<b>Primary government</b>	
State shared revenue	\$ 21,886
Property taxes	<u>44,019</u>
	<u>\$ 65,905</u>
 <b>Component unit</b>	
Property taxes	<u>\$ 5,954</u>

**Note 5 - Capital Assets**

Capital assets activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets being depreciated				
Infrastructure	\$ -	\$ 138,537	\$ -	\$ 138,537
Buildings, additions and improvements	480,187	16,499	-	496,686
Machinery and equipment	335,727	47,694	-	383,421
Vehicles	191,100	46,222	-	237,322
Total capital assets being depreciated	<u>1,007,014</u>	<u>248,952</u>	<u>-</u>	<u>1,255,966</u>
Less accumulated depreciation for				
Infrastructure	-	2,668	-	2,668
Buildings, additions and improvements	255,780	10,701	-	266,481
Machinery and equipment	248,651	22,942	-	271,593
Vehicles	110,723	18,754	-	129,477
Total accumulated depreciation	<u>615,154</u>	<u>55,065</u>	<u>-</u>	<u>670,219</u>
Net capital assets being depreciated	<u>391,860</u>	<u>193,887</u>	<u>-</u>	<u>585,747</u>
Governmental activities capital assets, net	<u>\$ 391,860</u>	<u>\$ 193,887</u>	<u>\$ -</u>	<u>\$ 585,747</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	16,458	-	16,458	-
Capital assets being depreciated				
Buildings, additions and improvements	1,138,648	-	-	1,138,648
Machinery and equipment	11,289	1,960	-	13,249
Water system	731,725	498,411	-	1,230,136
Total capital assets being depreciated	<u>1,881,662</u>	<u>500,371</u>	<u>-</u>	<u>2,382,033</u>
Less accumulated depreciation for				
Buildings, additions and improvements	304,019	22,773	-	326,792
Machinery and equipment	10,012	319	-	10,331
Water system	272,821	28,470	-	301,291
Total accumulated depreciation	<u>586,852</u>	<u>51,562</u>	<u>-</u>	<u>638,414</u>
Net capital assets being depreciated	<u>1,294,810</u>	<u>448,809</u>	<u>-</u>	<u>1,743,619</u>
Business-type capital assets, net	<u>\$ 1,311,268</u>	<u>\$ 448,809</u>	<u>\$ 16,458</u>	<u>\$ 1,743,619</u>

Capital assets activity of the component unit for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Component Unit</b>				
Capital assets being depreciated				
Machinery and equipment	\$ -	\$ 1,804	\$ -	\$ 1,804
Less accumulated depreciation for				
Machinery and equipment	-	45	-	45
Net capital assets being depreciated	<u>-</u>	<u>1,759</u>	<u>-</u>	<u>1,759</u>
Component unit capital assets, net	<u>\$ -</u>	<u>\$ 1,759</u>	<u>\$ -</u>	<u>\$ 1,759</u>

**Village of Schoolcraft**  
**Notes to Financial Statements**  
**February 28, 2006**

Depreciation expense was charged to programs of the primary government as follows:

**Governmental activities**

General government	\$ 19,616
Public safety	23,487
Public works	<u>11,962</u>
Total governmental activities	<u>55,065</u>

**Business-type activities**

Water	<u>51,562</u>
Total primary government	<u>\$ 106,627</u>

**Note 6 - Interfund Receivables, Payables, Transfers**

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due from/to other funds</b>		
General	Local Street	\$ 28,765
	Building	3,600
	Library	8,668
	Water	212,550
Major Street	General	27,120
Library	General	2,168
Water	General	33,251
	Major Street	17,469
	Local Street	<u>17,468</u>
		<u>\$ 351,059</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Due to/from primary government and component units

**Due to/from component units**

Receivable Fund	Payable Fund	Amount
General	DDA	<u>\$ 19,075</u>

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General	Local Street	\$ 2,633
Major Street	Local Street	<u>22,000</u>
		<u>\$ 24,633</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

**Village of Schoolcraft**  
**Notes to Financial Statements**  
**February 28, 2006**

**Note 7 - Long-Term Debt**

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund and Water Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>									
Bonds and notes payable									
Installment purchase agreements									
Police radios	\$ 30,720	1/31/13	N/A	\$ 3,840	\$ -	\$ 30,720	\$ 3,840	\$ 26,880	\$ 3,840
Compensated absences					18,669	-	988	17,681	-
Total governmental activities					<u>\$ 18,669</u>	<u>\$ 30,720</u>	<u>\$ 4,828</u>	<u>\$ 44,561</u>	<u>\$ 3,840</u>
<b>Business-type activities</b>									
Bonds and notes payable									
Installment purchase agreements									
Grand Street water main	\$ 507,694	5/24/15	4.35%	\$3,497 - \$5,206	\$ -	\$ 507,694	\$ 30,907	\$ 476,787	\$ 42,807
Compensated absences					3,403	133	-	3,536	-
Total business-type activities					<u>\$ 3,403</u>	<u>\$ 507,827</u>	<u>\$ 30,907</u>	<u>\$ 480,323</u>	<u>\$ 42,807</u>

The Village has the option to prepay its obligations under the Grand Street water main installment purchase agreement on any installment payment due date. The prepayment would include all principal and interest payments then accrued and payable plus the termination value indicated in the principal and interest payment schedule.

The Village paid \$16,118 in interest expense for FY 2005-2006.



**Village of Schoolcraft**  
**Notes to Financial Statements**  
**February 28, 2006**

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 3,840	\$ -	\$ 42,807	\$ 19,893
2008	3,840	-	44,707	17,993
2009	3,840	-	46,691	16,009
2010	3,840	-	48,763	13,937
2011	3,840	-	50,926	11,774
2012-2016	<u>7,680</u>	<u>-</u>	<u>242,893</u>	<u>23,584</u>
	<u>\$ 26,880</u>	<u>\$ -</u>	<u>\$ 476,787</u>	<u>\$ 103,190</u>

**Note 8 - Risk Management**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 9 - Employee Retirement and Benefit Systems**

**Defined contribution pension plan**

The Village provides pension benefits for all its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The plan permits employees to defer a portion of their current compensation until the employee terminates employment wages to the plan, but total contributions for each employee (and interest allocated to the employee's account) are immediately 100%

vested. The Village is not a trustee of the plan, nor is the Village responsible for investment management of plan assets.

The Village and covered employees made contributions of \$6,136 and \$11,166 respectively, for the fiscal year 2005-2006 for a total of \$17,302.

**Note 10 - Joint Ventures**

The Village is a member of the South Kalamazoo County Fire Authority. The Authority was established to jointly provide fire protection services within the member municipalities in southern Kalamazoo County, Michigan. The Authority is comprised of the Villages of Schoolcraft and Vicksburg, and the Townships of Brady, Prairie Ronde, Schoolcraft, and Wakeshma. During the current year, the Village contributed \$41,606 for its operation. The Village also rents the fire hall to the Authority. Rental income totaled \$6,500 for the year ended February 28, 2006.

The South Kalamazoo County Fire Authority receives an annual audit of its financial statements by an independent certified public accountant. A copy of the annual audit is kept on file at the Village of Schoolcraft office, and can be reviewed upon request.

**Note 11 - Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**Village of Schoolcraft**  
**Notes to Financial Statements**  
**February 28, 2006**

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**Note 12 - Construction Code Act**

A summary of construction code enforcement transactions for the year ended February 28, 2006 is as follows:

Carryover deficit from prior year	\$ (619)
Permit revenue	3,623
Permit expenditures	<u>(4,395)</u>
Deficiency of revenue over expenditures	\$ <u>(1,391)</u>

**Note 13 - Prior Period Adjustment**

	<u>Water Fund</u>
Construction in progress amounts which were mistakenly expensed	\$ <u>16,458</u>

**Village of Schoolcraft**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended February 28, 2006**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Taxes				
Property taxes	\$ 546,789	\$ 546,789	\$ 541,337	\$ (5,452)
Penalties and interest	1,200	1,200	2,014	814
Administration fee	-	-	295	295
Licenses and permits	-	-	5,499	5,499
State revenue sharing	143,350	143,350	154,986	11,636
State grants	750	750	6,499	5,749
Charges for services	37,100	37,100	36,793	(307)
Interest income	2,000	2,000	3,100	1,100
Rental income	29,200	29,200	6,500	(22,700)
Other revenue	1,700	1,700	1,558	(142)
Sale of fixed assets	1,000	1,000	-	(1,000)
Bond/note proceeds	-	-	30,721	30,721
Transfer in	28,697	28,697	-	(28,697)
Total revenues	791,786	791,786	789,302	(2,484)
<b>Expenditures</b>				
General government				
Village council	103,183	92,483	89,333	(3,150)
Manager	72,238	67,238	62,913	(4,325)
Clerk	6,283	6,283	3,941	(2,342)
Treasurer	11,052	26,052	25,024	(1,028)
Buildings and grounds	41,151	47,651	50,348	2,697
Total general government	233,907	239,707	231,559	(8,148)

**Village of Schoolcraft**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended February 28, 2006**

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Public safety				
Police	231,931	268,931	269,722	791
Fire department	39,000	41,600	41,606	6
Total public safety	270,931	310,531	311,328	797
Public works				
Department of public works	68,920	68,920	68,264	(656)
Sidewalks	37,000	37,000	7,702	(29,298)
Refuse collection	11,868	11,868	7,996	(3,872)
Total public works	117,788	117,788	83,962	(33,826)
Recreation and culture				
Parks and recreation	25,653	33,653	34,690	1,037
Capital outlay	121,409	87,009	142,528	55,519
Debt service				
Principal retirement	-	-	3,840	3,840
Transfers out	22,000	3,000	2,633	(367)
Total expenditures	791,688	791,688	810,540	18,852
Excess (deficiency) of revenues over expenditures	98	98	(21,238)	(21,336)
Fund balance - beginning of year	485,813	485,813	485,813	-
Fund balance - end of year	\$ 485,911	\$ 485,911	\$ 464,575	\$ (21,336)

See Accompanying Notes to Financial Statements

**Village of Schoolcraft**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street**  
**For the Year Ended February 28, 2006**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
State revenue sharing	\$ 92,000	\$ 92,000	\$ 96,332	\$ 4,332
Interest income	750	750	12,547	11,797
Other revenue	-	-	5	5
Transfers in	16,835	16,835	-	(16,835)
Total revenues	109,585	109,585	108,884	(701)
<b>Expenditures</b>				
Current				
Public works	87,585	87,585	32,709	(54,876)
Capital outlay	-	-	52,644	52,644
Transfers out	22,000	22,000	22,000	-
Total expenditures	109,585	109,585	107,353	(2,232)
Excess (deficiency) of revenues over expenditures	-	-	1,531	1,531
Fund balance - beginning of year	500,830	500,830	500,830	-
Fund balance - end of year	<u>\$ 500,830</u>	<u>\$ 500,830</u>	<u>\$ 502,361</u>	<u>\$ 1,531</u>

**Village of Schoolcraft**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street**  
**For the Year Ended February 28, 2006**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
State revenue sharing	\$ 29,000	\$ 29,000	\$ 30,687	\$ 1,687
Interest income	1,000	1,000	1,573	573
Other revenue	-	-	5	5
Transfers in	61,561	61,561	24,633	(36,928)
Total revenues	91,561	91,561	56,898	(34,663)
<b>Expenditures</b>				
Current				
Public works	91,561	91,561	22,970	(68,591)
Capital outlay	-	-	52,642	52,642
Total expenditures	91,561	91,561	75,612	(15,949)
Excess (deficiency) of revenues over expenditures	-	-	(18,714)	(18,714)
Fund balance - beginning of year	112,895	112,895	112,895	-
Fund balance - end of year	\$ 112,895	\$ 112,895	\$ 94,181	\$ (18,714)

**Village of Schoolcraft**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Library**  
**For the Year Ended February 28, 2006**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 107,950	\$ 107,950	\$ 127,984	\$ 20,034
Other state grants	2,000	2,000	2,920	920
Charges for services	1,400	1,400	892	(508)
Fines and forfeitures	8,900	8,900	14,961	6,061
Interest income	2,200	2,200	4,881	2,681
Other revenue	1,400	1,400	3,768	2,368
	<u>123,850</u>	<u>123,850</u>	<u>155,406</u>	<u>31,556</u>
<b>Expenditures</b>				
Current				
Community and economic development	119,075	119,075	108,385	(10,690)
Capital outlay	-	-	1,138	1,138
	<u>119,075</u>	<u>119,075</u>	<u>109,523</u>	<u>(9,552)</u>
Total expenditures				
	<u>119,075</u>	<u>119,075</u>	<u>109,523</u>	<u>(9,552)</u>
Excess of revenues over expenditures	4,775	4,775	45,883	41,108
Fund balance - beginning of year	206,845	206,845	206,845	-
Fund balance - end of year	<u>\$ 211,620</u>	<u>\$ 211,620</u>	<u>\$ 252,728</u>	<u>\$ 41,108</u>

**Village of Schoolcraft**  
**Other Supplemental Information**  
**Component Unit - Downtown Development Authority**  
**Budgetary Comparison Schedule**  
**For the Year Ended February 28, 2006**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 10,000	\$ 10,000	\$ 4,655	\$ (5,345)
Interest income	-	-	169	169
Other revenue	-	-	39,278	39,278
Total revenues	10,000	10,000	44,102	34,102
<b>Expenditures</b>				
Current				
Community and economic development	-	-	16,831	16,831
Capital outlay	10,000	10,000	1,804	(8,196)
Total expenditures	10,000	10,000	18,635	8,635
Excess (deficiency) of revenues over expenditures	-	-	25,467	25,467
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	\$ -	\$ -	\$ 25,467	\$ 25,467



**Village of Schoolcraft**  
**Component Unit - Downtown Development Authority**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended February 28, 2006**

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<b>Net change in fund balances - Total governmental funds</b>	\$ 25,467
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Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(45)
Capital outlay	1,804

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Property taxes	<u>5,954</u>
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<b>Change in net assets of governmental activities</b>	<b><u>\$ 33,180</u></b>
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**Village of Schoolcraft**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**February 28, 2006**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
<b>Governmental Activities</b>				
Installment Purchase Agreement	N/A	01/31/07	\$ 3,840	\$ 3,840
Date of agreement: 02-06-06	N/A	01/31/08	3,840	3,840
Amount of agreement: \$30,720	N/A	01/31/09	3,840	3,840
	N/A	01/31/10	3,840	3,840
	N/A	01/31/11	3,840	3,840
	N/A	01/31/12	3,840	3,840
	N/A	01/31/13	3,840	3,840
Total governmental activities				<u>26,880</u>
<b>Business-type Activities</b>				
Installment Purchase Agreement	4.35%	02/24/07	\$ 42,807	\$ 42,807
Date of agreement: 05-24-05	4.35%	02/24/08	44,707	44,707
Amount of agreement: \$507,694	4.35%	02/24/09	46,691	46,691
	4.35%	02/24/10	48,763	48,763
	4.35%	02/24/11	50,926	50,926
	4.35%	02/24/12	53,186	53,186
	4.35%	02/24/13	55,547	55,547
	4.35%	02/24/14	58,012	58,012
	4.35%	02/24/15	60,586	60,586
	4.35%	05/24/15	15,562	15,562
Total business-type activities				<u>476,787</u>
Total indebtedness				<u>\$ 503,667</u>